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SUBJECT: SEN. BAUCUS' MEETING WITH LEE KUAN YEW

1. (SBU) Summary: During a January 12 meeting with Senator Max Baucus (D-MT), Minister Mentor Lee Kuan Yew discussed the rise of China and its generally successful efforts to improve ties with its neighbors. China's economic success had also spurred reform in India; the only question now was how fast India could go, commented Lee. Turning to Islamic terrorism and Iraq, Lee stressed the importance of the United States' prevailing in Iraq. A victory for the terrorists in Iraq would embolden them and lead to a surge of terrorism around the world and affect Singapore. End Summary.

2. (U) During his January 12-13 visit to Singapore, Senator Max Baucus (D-MT), accompanied by the Ambassador, met with Minister Mentor (MM) Lee Kuan Yew on January 12. Senate Finance Committee staff members Brian Pomper and Demetrios Marantis and poloff (notetaker) also attended the meeting.

China

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3. (SBU) MM Lee Kuan Yew told the Senator that Singapore was very conscious of sitting at the confluence of two big and rising powers: China and India. China was focused on economic growth and wanted to spend the next few decades becoming a more prosperous and modern society. It did not want to be sidelined by problems with its neighbors or the United States. China had been working hard with its neighbors, such as Russia and South Korea, to improve relations, although it hadn't made any progress with Japan, Lee remarked. He asserted that President Hu Jintao had "given up" on Prime Minister Koizumi and was waiting for his replacement, who could be "just as bad" from China's perspective. China's leadership could not afford to let Taiwan break away and seek independence. They were confident, however, that growing economic integration and greater personal contacts would ensure that Taiwan would "come back" to China in 30-40 years.

U.S. Trade Deficit

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4. (SBU) MM Lee noted that the United States' growing trade deficit with China was a concern for both countries. China was interested in gaining greater access to high technology goods from the United States, which could reduce the deficit. A revaluation of the renminbi of 5-10 percent would have little practical impact, but would be psychologically good for reducing trade tension. China was still not comfortable making these types of monetary policy changes and was moving cautiously, according to Lee. China knew it had to strengthen its currency, but wanted to minimize any domestic dislocations that would cause and any chance for speculators to make a profit, he asserted.

North Korea

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5. (SBU) Asked about China's influence over North Korea, MM Lee responded that it was limited. China could deny North Korean leader Kim Jong-il the food aid and energy supplies he needs, but this would cause his regime to implode rather than give up its only leverage -- its nuclear weapons program. Then, China would end up with "South Korea and the United States on the Yalu River." China would like a non-nuclear but independent North Korean state.

India

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6. (SBU) MM Lee lamented that he had been disappointed many times in the past with India's failure to open up its economy to the outside world. China's tremendous economic success and a fear of being left behind, however, had spurred India to act. Now, there was a consensus across the political spectrum in India on the need for more reform. The only question was how fast India could go. Given India's poor infrastructure and the difficulty in overcoming old mind sets, it could only reach 60-80 percent of China's growth rate. Nevertheless, there was nothing that China was doing economically that India couldn't do as well, he said.

Islam and Iraq

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17. (SBU) Senator Baucus asked MM Lee about how the West should deal with Islam and jihadists. Lee responded that he had been concerned about this for many years, even before 9-11. The Israeli-Palestinian conflict was not the cause of Islamic terrorism, according to MM Lee. Rather, among Muslims, especially in the Middle East, there was a profound belief that "their time has come" and the West has put them down for too long. While pan-Arab nationalism failed to unite the Muslim world in the 1950s and 1960s, Islamic fervor has become an alternative unifying force. Furthermore, Arab oil wealth had affected Muslims in Southeast Asia through funding for mosques and educational exchanges, he averred. This had led to increased religious fervor among Southeast Asia's Muslims.

18. (SBU) The recent wave of terrorism will ebb, as long as the terrorists don't win in Iraq, MM Lee stated. If they do win, there will be a surge of terrorism around the world and "I'll have my Jemaah Islamiya chaps coming from Indonesia to blow me up." He suggested that the Sunnis faced two choices in Iraq. They could work within the framework established by the United States of one man, one vote. While this would reduce the power they historically wielded, they might be willing to accept it if the United States could guarantee their access to at least 20 percent of Iraq's oil wealth and maintain forces in the region to assure compliance. Alternatively, they could reject the U.S. model and the country would be plunged into chaos and warring militias. It was important for the United States to prevail in Iraq and leave only once a functioning government was in charge of a unified state, he stressed.

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